

Tanzania Cigarette Company Ltd
Rasilimali ya Tanzania



Annual report

for the year ended December 31, 2013

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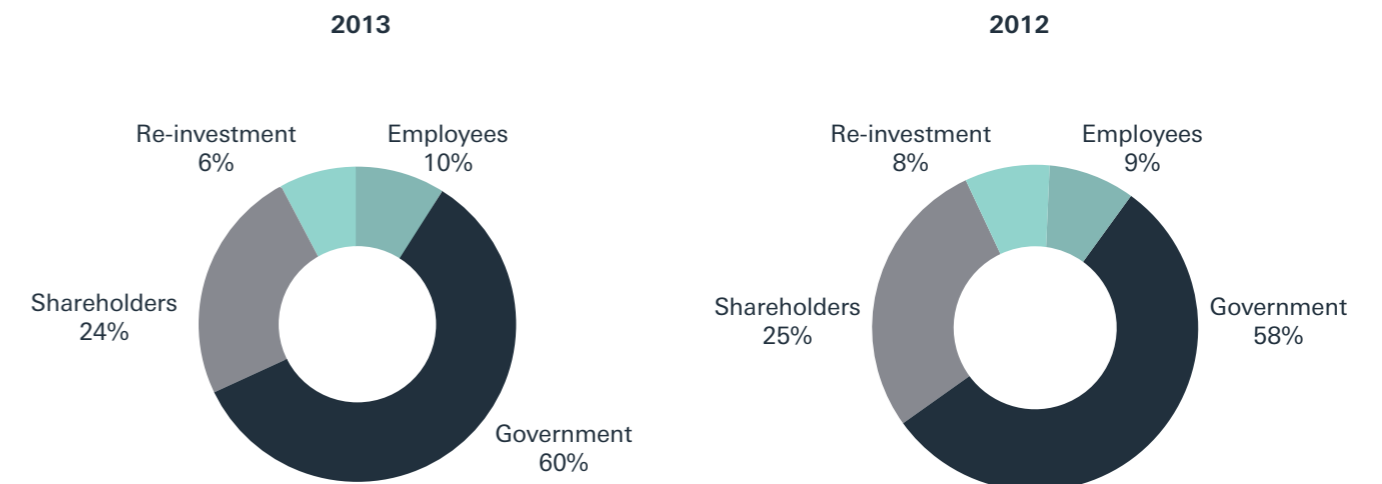
01. Financial highlights

Financial highlights

Value added

	2013		2012	
	TZS M	%	TZS M	%
Gross turnover	445,633		422,594	
Operating expenditures - Suppliers	(129,770)		(116,301)	
Total Value added	315,863	100.0	306,293	100.0
Value distributed as follows:				
To Employees - remuneration	32,906	10.4	28,706	9.4
To Government - VAT, excise duties	155,032	49.1	141,175	46.1
To Government - corporate tax	34,079	10.8	37,787	12.3
To Shareholders - dividends	75,000	23.7	75,000	24.5
To Reinvestment:				
- Depreciation and amortisation	15,788	5.0	12,684	4.1
- Retained income	3,058	1.0	10,941	3.6
Total distributions	315,863	100.0	306,293	100.0

Value distributed (%)



Financial highlights

Consolidated five-year financial summary

	2009	2010	2011	2012	2013
	TZS M	TZS M	TZS M	TZS M	TZS M
For the year:					
Gross turnover	265,242	321,777	376,778	422,594	445,633
VAT	40,098	45,886	52,985	58,805	60,450
Revenue	225,144	275,891	323,793	363,789	385,184
Excise duty	58,751	64,883	73,449	82,370	94,582
Net sales	166,393	211,008	250,344	281,419	290,601
EBITDA	73,131	95,005	108,939	134,028	125,797
Depreciation and amortization	6,924	9,140	10,015	12,684	15,788
Gross Profit	113,280	137,221	160,567	187,714	186,610
Operating income	66,207	85,865	98,923	121,345	110,009
Net Finance (income) expense	421	1,806	(2,452)	(1,201)	(2,128)
Corporate tax	19,759	23,859	30,433	37,787	34,079
Net income	46,028	60,200	70,942	85,941	78,058
At year end:					
Net property, plant and equipment	48,057	70,236	93,761	96,527	100,078
Total assets	149,791	176,779	204,616	222,982	248,749
Interest bearing debts	10,000	-	-	-	-
Total Liabilities	66,184	47,972	56,182	50,065	67,980
Total shareholders' equity	83,607	128,807	148,434	172,917	180,769
For the year:					
Net cash generated from operating activities	38,396	66,509	85,638	72,125	105,867
Net cash used in investing activities	(17,226)	(30,924)	(33,048)	(15,552)	(19,431)
Net cash used in financing activities	(10,000)	(25,000)	(50,000)	(60,000)	(75,000)
Cash Flow for the year	11,170	10,585	2,590	(3,427)	11,436

Dividend per share (TZS)	150	300	600	750	750
Earning per share (TZS)	460	602	709	859	781

Profitability:

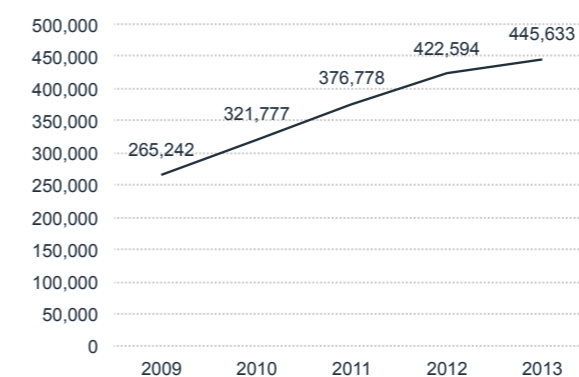
Return on equity	63%	57%	51%	53%	44%
EBITDA margin	44%	45%	44%	48%	43%
Operating income margin	40%	41%	40%	43%	38%
Total assets turnover	1.33	1.29	1.31	1.32	1.23

Stability:

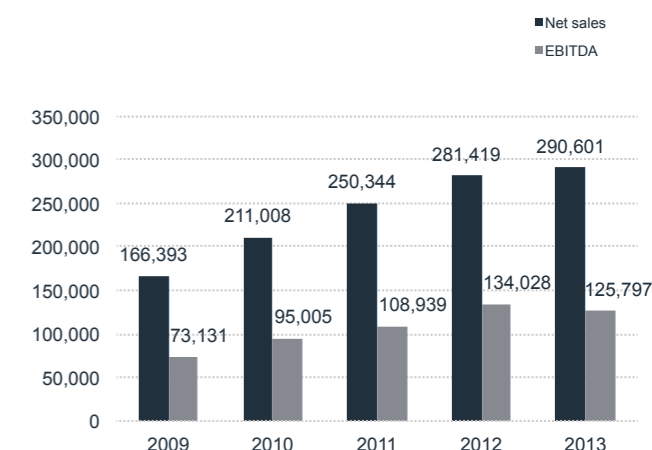
Current ratio	179%	267%	264%	378%	274%
Debt Ratio (Total liabilities/ Total Assets)	44%	27%	27%	22%	27%

Financial highlights

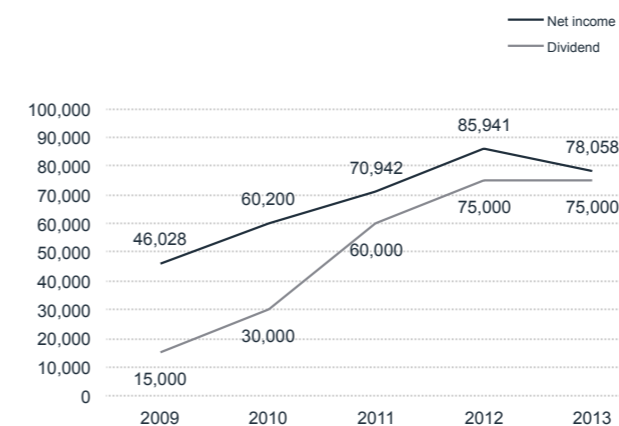
Gross turnover (TZS M)



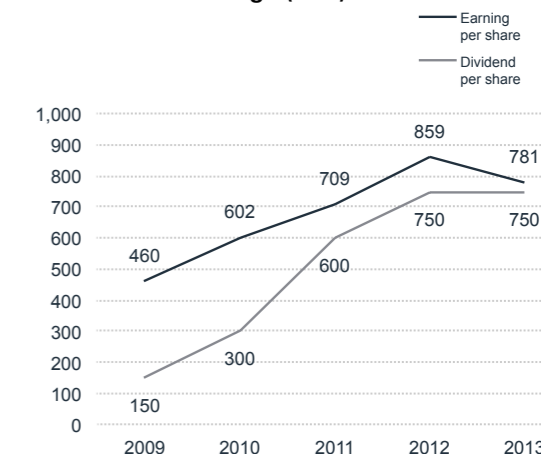
Net Sales and EBITDA (TZS M)



Net income and dividend (TZS M)



Dividend and earnings (TZS)



Dividend per share (2000 - 2013)

Year	Ordinary TZS	Special TZS	Total TZS	Year	Ordinary TZS	Special TZS	Total TZS
2000	117	-	117	2007	150	25	175
2001	147	80	227	2008	200	75	275
2002	147	160	307	2009	150	-	150
2003	156	63	219	2010	300	-	300
2004	156	-	156	2011	400	200	600
2005	156	-	156	2012	500	250	750
2006	100	-	100	2013	500	250	750
				Total			4,282



02. TCC at a glance

TCC at a glance

Our vision and mission

To be the best Company in East and Central Africa.

We will grow volume while defending our share of market, deliver quality brands and; maximize consumers and customers satisfaction through innovation, engaged employees, integrity and excellence in execution.

Our history

1961: Factory is officially opened by Mwalimu Julius K. Nyerere on December 4.

1967: TCC is nationalized. The Government acquired a 60% stake from British American Tobacco (BAT).

1975: The Government acquired the remaining 40%. The Company is renamed Tanzania Cigarette Company Ltd (TCC).

1995: TCC is privatized. R.J. Reynolds of the USA acquired 51% stake in TCC.

1999: Japan Tobacco Inc. (JT) of Tokyo acquired the non US operations of R.J. Reynolds and consequently TCC.

2000: TCC was listed on the Dar es Salaam Stock Exchange. Japan Tobacco International (JTI) increased its shareholding in TCC from 51% to 75%.

Our values

Enterprising

We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is fuelled by our creative energy and agile minds.

Open

We believe in openness and transparency in everything we do. Diverse cultures inspire us, knowledge informs us and integrity guides us. This means making the right decisions, earning us the reputation as the trusted voice of authority within our industry.

Challenging

We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market – a leader not a follower.

Our principles

01. Open about risks of smoking.
02. Transparent about our product.
03. Commitment to the development of reduced-risk products.
04. Youth smoking prevention.
05. Accommodation between smokers and non-smokers.
06. Respect for local norms and cultures.

Our numbers in 2013

01. 16 branch offices.
02. 605 employees.
03. Indirect employment: + 100,000 tobacco farmers, +2,500 business partners.
04. TZS 446 billion turnover.
05. 189 billion in tax payments.
06. TZS 860 billion market capitalization.
07. Share price of TZS 8,600 at December 31, 2013.
08. Share structure: Foreign (75%) ; Local (25%).

TCC kwa muhtasari

Lengo na dhamira yetu

Kuwa Kampuni bora Afrika Mashariki na Kati.

Tutakuza wingi wa bidhaa, huku tukitetea mgao wetu wa soko, kuzalisha bidhaa bora na; kuzidi kuwaridhisha walaji na wateja kupitia ubunifu, wafanyakazi walioshirikishwa, uadilifu na umahiri katika utendaji.

Historia yetu

1961: Kiwanda kilifunguliwa rasmi na Mwalimu Julius K. Nyerere Disemba 4.

1967: Serikali ilitaifisha Kampuni na kuchukua asilimia 60 ya hisa kutoka kwa British American Tobacco (BAT).

1975: Serikali ilichukua asilimia 40 ya hisa zilizobaki. Kampuni ikabadilishwa jina na kuwa Tanzania Cigarette Company Ltd (TCC).

1995: TCC ilibinafsishwa kwa R.J. Reynolds ya Marekani ambayo ilichukua asilimia 51 ya hisa za TCC.

1999: Japan Tobacco Inc. (JT) ya Tokyo ilinunua shughuli za makampuni ya tumbaku zilizomilikiwa na R.J. Reynolds zilizokua nje ya Marekani, ikiwemo TCC.

2000: TCC iliorodheshwa kwenye Soko la Hisa la Dar es Salaam. Japan Tobacco International (JTI), iliongeza hisa zake za TCC kutoka asilimia 51 hadi asilimia 75.

Maadili yetu

Ujasiri

Tuna ujasiri wa kufanya mambo kwa namna tofauti. Tunashirikiana kufikia lengo letu la muda mrefu. Hali hii inaibua mawazo mapya yanayoleta ubunifu na mitazamo mipya. Hii inachochea zaidi na nguvu yetu ya ubunifu na fikra zenye mwamko wa kukabili mabadiliko.

Uwazi

Tunaamini katika kuzingatia uwazi na ubayana katika kila kitu tunachofanya. Tamaduni za aina tofauti zinatupa ari, maarifa yanatuongezea ujuzi na uadilifu unatuongoza. Hii inamaanisha kufanya maamuzi sahihi, kutupa heshima kama sauti yenye mamlaka inayoaminika katika sekta yetu.

Changamoto

Tunahakikisha uboreshaji endelevu. Hii ina maana kuweka ubora kwenye kila kitu tunachokifanya na kamwe hatukubali kuwa wa pili. Tunaweka viwango vinavyokuwa vigezo linganishi kwa sekta yote. Hii inatuwezesha kuupa changamoto utendaji halisi wa sasa na kuongoza kwenye soko - kiongozi na si mfuasi.

Kanuni zetu

01. Uwazi kuhusu athari za uvutaji sigara.
02. Kuwa bayana kuhusu bidhaa zetu.
03. Dhamira ya kuendelea kupunguza madhara ya bidhaa.
04. Kuzuia uvutaji kwa vijana.
05. Maelewano kati ya wavutaji na wasio wavutaji.
06. Kuheshimu mila na tamaduni za jamii.

Namba zetu 2013

01. Matawi 16.
02. Wafanyakazi 605.
03. Zaidi ya ajira 100,000 zisizo za moja kwa moja za wakulima wa tumbaku na wabia wa biashara 2,500.
04. Mapato ya Shilingi bilioni 446.
05. Malipo ya kodi ya Shilingi bilioni 189.
06. Mtaji wa soko wa Shilingi bilioni 860.
07. Bei ya hisa ya Shilingi 8,600 kufikia Desemba 31, 2013.
08. Umiliki: Wawekezaji wa nje (75%) ; Wawekezaji wa Ndani (25%).

03. To our stakeholders

To our stakeholders

Message from the Chairman

Dear Shareholders,

TCC performed well in 2013 despite a challenging business environment and tough trading conditions. We had another good year with revenue and cash flow growth.

Gross turnover grew 5.5% (TZS 445.6 billion compared to TZS 422.6 billion achieved in 2012) driven by pricing and double digit volume growth in export markets. Domestic sales volume was broadly flat with market share slightly lower than last year due to pressure on disposable income, increased competitors' activities and contraband.

Our share price reached an all-time high of TZS 8,600 as at December 31, 2013 (December 31, 2012: TZS 4,200) and our market capitalization more than doubled to TZS 860 billion (2012: TZS 420 billion), reflecting growing investors' confidence in the sustainability of our business.

Continued down-trading by consumers to lower margin brands post excise tax increases (20.45% and 10% in July 2012 and 2013 respectively) and higher operating costs adversely impacted our profit after tax. 2013 profit after tax was TZS 78.1 billion, down 9.2% from TZS 85.9 billion in 2012.

Based on the 2013 performance, the Board of Directors have recommended a final ordinary gross dividend of TZS 200 per share and a special gross dividend of TZS 250 per share. When added to the interim dividend of TZS 300 per share paid in October 2013, the total dividend for the year is TZS 750 per share. The final gross ordinary and special dividends will be paid on or about May 09, 2014, subject to shareholders' approval at the Annual General Meeting to be held on April 16, 2014.

Beyond the fiscal, we achieved several other successes in 2013. The Parastatal Pension Fund recognized us for timely

remittance of employees' pension contributions. The Tanzania Revenue Authority named us for the seventh consecutive year as one of the top three most compliant and largest tax payers in the country (TZS 189.1 billion in 2013). The National Board of Auditors and Accountant (NBAA) also recognized us for the integrity of our financial reporting.

Going forward, we recognize the persisting challenges and the rapid changes in market dynamics. We will therefore further strengthen our ability to respond and rapidly adapt to changes in our operating environment. We will strive for continuous improvement, embedding quality into everything we do and never accepting second best.

At the core will be our relentless focus on our consumers to meet their needs.

With the strength of our portfolio, our expertise, the pool of talent and the strategy we have in place, I remain confident that we will continue to deliver sustainable growth. More so, I am optimistic about the economic outlook for Africa and Tanzania in specific which will accelerate our growth. We are well positioned to take advantage as and when such a favorable environment prevails.

Finally, I would like to extend my special thanks to all our employees for their dedication and hard work; to the Board of Directors for their farsighted support; to our customers, consumers, parent company, Japan Tobacco International, all shareholders and stakeholders for their continued support to our business.

Yours sincerely,



Majd Abdou
Chairman and CEO

Kwa wadau wetu

Waraka kutoka kwa Mwenyekiti

Wapendwa Wanahisa,

TCC ilifanya vizuri mwaka 2013 licha ya mazingira yenye changamoto na hali ngumu ya biashara. Tulikuwa na mwaka mwingine mzuri wa ukuaji wa mapato na ongezeko la fedha.

Mapato ya jumla yalikua kwa asilimia 5.5 (Shilingi bilioni 445.6 ikilinganishwa na Shilingi bilioni 422.6 iliyopatikana mwaka 2012) yaliyotokana na ongezeko la bei na ukuaji wa mauzo ya soko la nje. Mauzo ya soko la ndani hayakukua, na mgao wetu wa soko ulishuka kidogo ikilinganishwa na mwaka jana kutokana na shinikizo la pato la matumizi, kuongezeka kwa ushindani na biashara ya bidhaa za magendo.

Kuendelea kwa walaji kuhamia kwenye bidhaa zetu zenye faida ndogo, ongezeko la ushuru (asilimia 20.45 Julai 2012 na asilimia 10 Julai 2013) na gharama za juu za uendeshaji, ziliathiri vibaya faida yetu baada ya kodi. Faida baada ya kodi kwa mwaka 2013 ilikua Shilingi bilioni 78.1 ambayo ni pungufu ya asimilia 9.2, ikilinganishwa na Shilingi bilioni 85.9 kufikia Desemba 2012.

Bei zetu za hisa zilifikia bei ya juu kabisa ya Shilingi 8,600 kufikia Desemba 31, 2013 (Desemba 31, 2012: TZS 4,200) na mtaji wa soko letu uliongezeka zaidi ya mara mbili kufikia Shilingi bilioni 860 (2012: Shilingi bilioni 420), kuonyesha kuongezeka kwa imani ya wawekezaji katika uendeleu wa biashara yetu. Kulingana na utendaji wa mwaka 2013, Bodi ya Wakurugenzi imependekeza gawio la kawaida la mwisho la Shilingi 200 kwa kila hisa na gawio maalumu la jumla la Shilingi 250 kwa kila hisa. Ukiongeza gawio hili kwenye gawio la

kwanza la Shilingi 300 kwa kila hisa lililolipwa Oktoba 2013, gawio la jumla kwa mwaka linakua Shilingi 750 kwa kila hisa. Gawio la mwisho la jumla la kawaida na gawio maalum litalipwa mnamo Mei 9, 2014, kutegemea idhini ya wanahisa katika Mkutano Mkuu wa Mwaka utakaofanyika Aprili 16, 2014.

Zaidi ya mafanikio ya kifedha, tulipata mafanikio mengine katika mwaka 2013. Mfuko wa Pensheni wa Mashirika ya Umma ulitunukia tuzo kwa kuwakilisha michango yawafanyakazi kwa muda muafaka. Mamlaka ya Mapato Tanzania ulitunukua tuzo ya ushindi kwa mara ya saba mfululizo kwa kuwa kati ya makampuni matatu bora Tanzania kwa ulipaji kodi bila shuruti. Bodi ya Taifa ya Wakaguzi na Wahasibu (NBAA) pia ilitunuku kwa uadilifu wa taarifa zetu za fedha.

Tunavyosonga mbele, tunatambua changamoto zinazoendelea kuwepo na mabadiliko ya haraka katika mienendo ya soko. Kwa sababu hiyo, tutaendelea kuimarisha uwezo wetu wa kukabiliana na kubadilika kwa haraka kulingana na mabadiliko katika mazingira yetu ya uendeshaji. Tutajitahidi kuendelea maboresho, kuhakikisha ubora kwenye kila kitu tunachokifanya na kutokubali kuwa wa pili. Kimsingi tuna lengo lisilotetereka la kukidhi mahitaji ya walaji wetu.

Kwa uimara wa bidhaa zetu, utaalamu wetu, vipaji vya watu wetu na mikakati tuliyonayo, ninaamini kwamba tutaendelea kukua. Zaidi ya hapo, nina matumaini kuhusu mtazamo wa kiuchumi kwa Afrika na hasa Tanzania utakaoharakisha ukuaji wetu. Tuna nafasi nzuri ya kufaidika mazingira mazuri yatakapojitokeza.

Mwisho, ningependa kutoa shukurani zangu za dhati kwa wafanyakazi wetu wote kwa kujitoa kwao na kufanya kazi kwa bidii; Bodi ya Wakurugenzi kwa msaada wao na kwa kuona mbali; kwa wateja wetu, walaji, Kampuni mama - Japan Tobacco International, wanahisa wote na wadau kwa kuendelea kusaidia biashara yetu.

Wasalaam,



Majd Abdou
Mwenyekiti wa Bodi na Afisa Mtendaji Mkuu

04. Directors and Management team

Members of the board



Majd Abdou, Canadian
Chairman & CEO (Executive)
Master in Finance, B.Sc Mathematics (Economics)

Mr. Majd Abdou joined TCC on January 20, 2012 as Chairman and CEO. Prior to joining TCC, he was the General Manager for JTI Middle East. He brings to TCC a wealth of experience in sales, marketing and general management. Majd has over 10 years experience in the tobacco industry. His previous positions include Sales Director for JTI Levant and Saudi-Gulf.



Christo Kruger, South African
Director (Executive)
CA (South Africa)

Mr. Christo Kruger joined TCC in February, 2012 as Chief Financial Officer and Director of Finance. Prior to transferring to TCC, he held various positions in the Corporate Finance function at JTI headquarters in Geneva, Switzerland. Christo joined JTI from Deloitte South Africa where he served in the partnership for eight years. Christo was appointed to the TCC Board of Directors on February 10, 2012.



Hubertus Maria Antonius Ooms, Dutch
Director (Non-executive)
M.A. Business Economics, M.A Finance and Control

Mr. Hubertus Ooms is Head of Finance for the JTI Middle East, Near East, Africa and Turkey and World Wide Duty Free region. Mr. Ooms has held various senior positions in finance within JTI. He has over 15 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2008.



Paul Makanza, Tanzanian
Director (Executive)
B.Com, MBA

Mr. Paul Makanza joined TCC in 2001 as Director of Corporate Affairs and Communications. Prior to joining TCC, he worked for PricewaterhouseCoopers in Dar es Salaam. Mr. Makanza has over 10 years of experience in the tobacco industry. He joined the Board of Directors of TCC in 2005.



David Thorn, British
Director (Executive)
B.A. (Hons) Economics, A.C.A.

Mr. David Thorn worked at TCC as Chief Financial Officer and Director of Finance (2002-2005). He is currently General Manager of JTI East and Central Africa sub-region. Mr. Thorn has held various senior positions in finance in different JTI markets, including Russia and Ukraine. He has over 15 years experience in the tobacco industry. He joined the Board of Directors of TCC in 2002.



Vintan Mbiro, Tanzanian
Secretary to the Board (Executive)
LLB, LL.M, Advocate of the High Court of Tanzania and Courts subordinate thereto

Mr. Vintan Mbiro is Secretary to the Board of Directors. He is also the Director of Legal Affairs at TCC. Vintan joined TCC in 1999 from PricewaterhouseCoopers. He has over 10 years experience in the tobacco industry.



Olivier Blanc, Swiss
Director (Non-executive)
Law Degree, LL.M, Bar (Geneva)

Mr. Olivier Blanc is Regional Counsel for the JTI Middle East, Near East, Africa and Turkey and World Wide Duty Free region. Previously, he was Assistant General Counsel Business Development and Corporate Strategy Director for the region. He has extensive legal experience in commodity trade finance, structured finance, corporate financing, mergers and acquisitions and tax. Prior to joining JTI, he worked for BNP Paribas (Suisse) SA, Pestalozzi Lachenal Patry – Attorneys at Law - Geneva and PricewaterhouseCoopers SA, Zurich, Switzerland. He joined the Board of Directors of TCC in 2012.



Ramadhani Khijjah, Tanzanian
Director (Non-executive)
BA (Statistics), MA (Development Economics)

Mr. Ramadhani Khijjah is the Permanent Secretary to the Treasury, Ministry of Finance. He represents the Government of Tanzania on the Board of TCC. Mr. Khijjah joined the Board of Directors of TCC in 2009. He retired from the Board on July 12, 2013.



Dr. Servacius Likwelile, Tanzanian
Director (Non-executive)
Ph.D. (Econ.), M.A. (Econ.), B.A. (Econ.)

Dr. Servacius Likwelile is the Permanent Secretary to the Treasury, Ministry of Finance. He represents the Government of Tanzania on the Board of TCC. Dr. Likwelile joined the Board of Directors of TCC in July 2013. He has over 25 years of academic, technical and senior level managerial experience in university, research institutions and Government.

Management team



Majd Abdou
Chairman and CEO



Bony Scheerschmidt
Director Manufacturing



Paul Makanza
Director Corporate Affairs



Stella Urio
Director C&TM Portfolio
and Brand Strategy



Moses Gunda
Director C&TM Operations



Tunu Kinabo
Director C&TM
Development and Planning



Vintan Mbiro
Director Legal



Christo Kruger
Director Finance & IT



Caroline Kavishe
Director Human Resources



Frank Usiri
Director Company Services

05. Business Review

Business review

FY2013 vs. FY2012

Total sales volume

Up 7%

Revenue¹

TZS 385.2 billion, up 5.9%

Adjusted EBIDTA²

TZS 125.8 billion, down 6.1%

Net profit

TZS 78.1 billion, down 9.2%

¹ Revenue = Gross turnover – VAT

² EBIDTA = Operating profit + interest + corporate tax + depreciation + amortization

Business performance summary

Total volume grew by 7% driven by the strong performance in export markets (+24.1% volume growth). Domestic market volume was broadly stagnant as competition intensified and contraband increased. TCC remained the market leader across all price segments despite the marginal decline of its share of market.

The mid-price segment, historically the largest volume wise, was strongly impacted. Consumers shifted to cheaper/low margin brands in the value and base segments.

Revenue increased by 5.9% as the pricing effect more than compensated for flat domestic volume. However earnings before interest, tax, depreciation and amortization (EBITDA), as well as net profit declined by 6.1% and 9.2% respectively due to unfavorable product mix (consumer down-trading) and cost increase.

Investment in improved employees' benefits, restructuring and technical services provided by the parent company (Japan Tobacco International) for increased efficiency resulted in higher operating cost.



Brand portfolio

Our well-balanced and diversified portfolio includes brands such as Embassy, Portsman, Sweet Menthol, Safari and Club. A number of initiatives were implemented to further strengthen brand equity. We rejuvenated our brands through pack modernization, launched Embassy and Camel Limited Edition Packs to inject dynamism, invested in innovative point of sale materials to uplift the image and, got closer to our consumers and customers through many brand activations, as well as retail and wholesale programs.

Super premium



The original American blend cigarette dating back to 1913 was launched in Tanzania in 2004. Sold in over 100 countries, Camel is the 10th largest cigarette brand in the world. Camel is our Global Flagship brand.

Premium



Registered in January, 1948 in Tanganyika in the name of British American Tobacco (Tanzania) Limited, which name was later changed to Tanzania Cigarette Company Limited. Embassy is the leading domestic local premium brand.

Mid-price



Formerly Sportsman, Introduced in Tanganyika in 1928, it is one of the largest mid price brands in Tanzania. It is considered a national heritage brand.



Launched in 1961, Sweet Menthol (SM) is the leading local mainstream menthol brand in Tanzania.

Value



Launched in 2005, Safari is a quality brand that provides value for money.



A premium menthol cigarette launched in 2008. It is the newest brand in the TCC brand portfolio.

Base



This value for money brand was launched in 1998 and is one of the leading value brands in the domestic market.



Crescent & Star Launched in the 1930s. Crescent & Star is a non-filter brand that offers the unique taste of dark fired cured tobaccos.

Distribution and marketing

We made significant progress towards the implementation of digital mapping and sales automation programs in 2013. Once completed, they will provide critical information on distribution gaps across the country and facilitate efficient deployment of resources to better service our customers and consumers and; most importantly to drive our top line growth. A new distribution model will be piloted in 2014 and rolled out to other areas if successful.

We will continue to engage in efficient and effective marketing activities in 2014 linked to our product and distribution strategies while fully complying with local regulations and our International Marketing Standards.

Quality and productivity

Various external audits in 2013 re-confirmed the high quality of our products. Our quality management system was ISO 9001-14001 re-certified in December, 2013; our quality rating was amongst the highest within the Japan Tobacco International Group of Companies and; our 5S3R program, an internationally recognized management tool for lean and clean manufacturing operations, was gold certified - the highest certification attainable.

Furthermore, we produced cigarettes for the domestic and export markets without a single lost time incident; achieved cost savings of TZS 1 billion through efficient procurement and lot size optimization and; invested TZS 5 billion in various capital expenditure projects to enhance production capacity and efficiencies.

People

In 2013, our people initiatives focused on driving employees' engagement, building a sustainable pipeline of talent and, rationalizing our headcount. We introduced new car benefits for our managers and aggressive incentive schemes to drive performance. We identified key talents in every department and provided world class training and development programs in and outside

Tanzania. We also restructured our work-force in line with our current and future business needs.

More so, many recognition programs were implemented during the year to heighten our position as investor in people and to underscore our employee value proposition.

Corporate philanthropy

Corporate Philanthropy (CP) is how we describe our choice to contribute to societies in which we do business, in a way that is meaningful, considered, voluntary and outside of our commercial operations. Our goal is to help people who are less-advantaged to improve their quality of life, and to promote arts.

Our CP programs focus on two broad pillars: People (poverty alleviation, older people, adult education and people with disabilities); and Arts (cultural heritage, contemporary art and Japanese culture). These areas reflect the United Nations Millennium Development Goals (MDGs) which represent a globally accepted agenda for societal needs.

In 2013, we provided substantial support to the Vipaji Foundation for the 7th consecutive year. Vipaji is a non-profit organization that promotes local arts and culture in Tanzania. As part of our initiative to promote Japanese culture in Tanzania, we collaborated with the Embassy of Japan in Tanzania to host a unique drum performance by the Sagae City Garyu Drum Society of Japan.

We also supported access to tertiary education in sciences for adult female students in partnership with the Tanzania Education Authority. A total of 235 female students benefitted from this support in 2013. Gender disparity in sciences is a major challenge in Tanzania. Females account for only 30% of the total scientists in the country. The pre-entry program aims to compliment the Government's goal to increase this ratio.

We will continue to support the above two programs in 2014 and introduce a third program under the people pillar.

Mapitio ya biashara

FY2013 vs. FY2012

Jumla ya mauzo
Ongezeko la asilimia 7

Mapato¹
Shilingi bilioni 385.2, ongezeko
la asilimia 5.9

EBIDTA Iliyorekebishwa²
Shilingi bilioni 125.8, imepungua
kwa asilimia 6.1

Faida halisi
Shilini bilioni 78.1, imepungua kwa
asilimia 9.2

¹ Mapato = Mapato ya jumla – VAT

² EBITDA = faida ya shughuli + riba+ kodi ya shirika + kushuka kwa thamani ya fedha + fedha za kulipia deni

Muhtasari wa uendeshaji biashara

Jumla ya kiasi cha bidhaa iliyouzwa iliongezeka kwa asilimia 7 kutokana na ongezeko la mauzo ya bidhaa kwenye soko la nje (ukuaji wa mauzo kwa asilimia +23.6). Kiasi cha bidhaa iliyouzwa kwenye soko la ndani haikukua kutokana na kuimarika kwa ushindani na kuongezeka kwa bidhaa bandia.

TCC iliendelea kuongoza soko katika makundi yote ya bei za bidhaa licha ya kupungua kwa kiasi cha mgao wetu wa soko. Mauzo ya bidhaa za kundi la bei ya kati, lenye mauzo makubwa kihistoria, yalishuka na bidhaa za kundi la chini kupanda. Ingawaje hakukuwa na ongezeko la idadi ya mauzo ya bidhaa kwenye soko la ndani.

Mapato yaliongezeka kwa asilimia 5.9. Hii ni kwasababu ya ongezeko la bei za bidhaa zetu. Mapato kabla ya riba, kodi, kushuka kwa thamani ya fedha na kulipia madeni (EBIDTA), pamoja na faida halisi yalipungua kwa asilimia 6.1 na asilimia 9.2 kutokana na uuzaji mkubwa wa bidhaa zenye faida ndogo.

Kuongezeka kwa gharama za uendeshaji, hususan marupurupu ya wafanyakazi, malipo ya wafanyakazi walio punguzwa na gharama za huduma za kiufundi kutoka kwa Kampuni mama (Japan Tobacco International) ziliathiri gharama za uendeshaji.

Maelezo ya bidhaa zetu

Bidhaa zetu za aina mbalimbali na zenye uwiano mzuri zinajumuisha bidhaa kama Embassy, Portsman, Sweet Menthol, Safari na Club. Kampuni ilitekeleza mipango mbalimbali ili kuimarisha usawa wa bidhaa zetu. Tumechangamsha zaidi bidhaa zetu kwa kuboresha mwonekano wa paketi zetu, tulizindua mwonekano mpya wa muda mfupi wa paketi za Embassy na Camel ili kuwa na mabadiliko, pia tuliwekeza kwenye ubunifu wa vifaa vinavyotumika sehemu za mauzo ili kuinua mwonekano na, kujiweka karibu na walaji na wateja wetu kwa kupitia shughuli za uhamasishaji mauzo ya bidhaa pamoja na programu za kuongeza mauzo ya rejareja na jumla.

<p>Bidhaa ya juu kabisa</p>	 <p>Sigara yenye mchanganyiko halisi wa Kiamerika iliyozinduliwa mwaka 1913 na kuanza kutumika nchini Tanzania mwaka 2004. Camel inauzwa kwenye zaidi ya nchi 100 duniani, na ni chapa ya 10 kwa mauzo makubwa duniani. Camel ni bidhaa yetu yenye chapa ya Kimataifa.</p>	
<p>Bidhaa ya juu</p>	 <p>Ilisajiliwa Januari, 1948 nchini Tanganyika kwa jina la British American Tobacco (Tanzania) Limited, ambayo baadaye ilibadilishwa jina kuwa Tanzania Cigarette Company Limited. Embassy ni bidhaa yenye chapa ya ladha ya juu inayoongoza kwenye soko la ndani.</p>	
<p>Bidhaa ya kati</p>	 <p>Zamani iliitwa Sportsman, iliyo zinduliwa Tanganyika mwaka 1928, ni moja ya bidhaa bei ya kati zenye soko kubwa nchini Tanzania. Ni bidhaa inayochukuliwa kama urithi wa taifa.</p>	 <p>Sweet Menthol (SM), ilizinduliwa mwaka 1961, ni sigara ya mentha yenye soko linaloongoza nchini Tanzania.</p>
<p>Bidhaa ya thamani</p>	 <p>Ilizinduliwa mwaka 2005. Safari ni bidhaa bora inayompa mteja thamani ya fedha.</p>	 <p>Ni sigara ya chapa ya juu yenye ladha ya mentha iliyozinduliwa mwaka 2008. Ni aina mpya ya sigara katika orodha ya bidhaa za TCC</p>
<p>Bidhaa ya msingi</p>	 <p>Bidhaa hii ya thamani ya fedha iliyozinduliwa mwaka 1998 na ni miongoni mwa sigara za thamani zinazoongoza katika soko la ndani.</p>	 <p>Crescent & Star ilizinduliwa miaka ya 1930. Ni sigara isiyo na kichungi inayompa mteja ladha ya pekee ya tumbaku nyeusi iliyokaushwa kwa kuni.</p>

Usambazaji na masoko

Mwaka 2013, tulipiga hatua kubwa katika utekelezaji wa programu ya ramani za digitali na mauzo kwa kutumia mitambo inayojiendesha. Programu hizo zikikamilika zitatupa taarifa muhimu kuhusu mapungufu ya usambazaji kutoka nchini kote na kuwezesha kupeleka rasilimali kwa ufanisi ili kuwahudumia vizuri zaidi wateja wetu na walaji na; muhimu zaidi kukuza mauzo. Mtindo mpya wa usambazaji utajaribiwa mwaka 2014 kwenye maeneo yatakayochaguliwa na kutekelezwa katika maeneo mengine iwapo majaribio hao yatafanikiwa.

Mwaka 2014, tutaendelea kuongeza ufanisi na shughuli madhubuti za masoko na kuunganisha na mikakati ya kuboresha bidhaa na usambazaji huku tukizingatia kwa ukamilifu kanuni za ndani na Viwango vya Masoko vya Kimataifa.

Ubora na tija

Kaguzi mbalimbali za nje zilizofanywa mwaka 2013 zimeendelea kuthibitisha ubora wa hali ya juu wa bidhaa zetu. Mfumo wetu wa usimamizi wa ubora wa ISO 9001–14001 ulithibitishwa tena na kupewa hati Desemba, 2013; aidha kiwango chetu cha ubora kilikuwa miongoni mwa viwango vya juu katika makampuni yaliyo chini ya Japan Tobacco International. Vilevile programu yetu ya 5S3R ya mpango wa usimamizi wa upangaji vitu na usafi wa shughuli za uzalishaji unaotambuliwa kimataifa ulipewa cheti cha dhahabu – cheti cha kiwango cha juu kabisa kinachoweza kutolewa.

Zaidi ya hayo, tulizalisha sigara kwa ajili ya soko la ndani na la nje bila ya tukio lolote la ajali ya kupoteza muda wa kazi; tulifanikiwa kuokoa gharama za Shilingi bilioni 1 kutokana na ununuzi wenye ufanisi na utumiaji makini wa malighafi na; tuliwekeza Shilingi bilioni 5 kwenye matumizi mbalimbali ya miradi mikubwa ya maendeleo ili kuongeza uwezo wa uzalishaji na ufanisi.

Wafanyakazi wetu

Mwaka 2013, mipango ya miradi ya kuwekeza kwa watu wetu lililenga zaidi katika kuongeza ushirikishaji wa wafanyakazi, kujenga uwezo wa vipaji endelevu na kupanga upya idadi ya wafanyakazi kwa namna yenye kuboresha zaidi tija. Tulianzisha mafao mapya ya magari kwa mameneja wetu na mipango mathubuti ya motisha ili kuongeza utendaji. Tulibainisha vipaji muhimu katika kila idara na kuwapa mafunzo ya hali ya juu na mipango ya kuendelezwa kikazi vilivyofanyika ndani na nje ya Tanzania.

Pia tulirekebisha idadi ya wafanyakazi kulingana na mahitaji yetu ya biashara ya sasa na ya baadaye. Zaidi ya hapo, mipango mingi ilitekelezwa ili kuimarisha msimamo wetu kama mwekezaji kwenye rasilimali watu na kusisitiza thamani ya wafanyakazi wetu.

Msaada wa Kampuni kwa jamii

Msaada wa Kampuni kwa jamii (CP) ni namna TCC inavyoamua kuchangia kwa jamii inamofanyia shughuli zake za biashara, kwa namna yenye manufaa, iliyofikiriwa, kwa hiari na nje ya shughuli zake za kibiashara. Lengo likiwa ni kuwasaidia watu waliokosa fursa kuboresha maisha yao, lengo lingine likiwa ni kukuza sanaa.

Programu za msaada wa Kampuni kwa jamii zinalenga mihimili mikuu miwili: Watu (kutokomeza umaskini, wazee, elimu ya watu wazima na watu wenye ulemavu); na Sanaa (urithi wa utamaduni, sanaa ya kisasa na utamaduni wa Kijapani). Maeneo haya yanaonyesha Malengo ya Maendeleo ya Milenia (MDGs) ya Umoja wa Mataifa (UN) yanayowakilisha ajenda inayokubalika kimataifa kwa mahitaji ya jamii.

Mwaka 2013, tulitoa msaada mkubwa kwa Vipaji Foundation kwa mwaka wa 7 mfululizo. Vipaji Foundation ni shirika lisilo la kibiashara linalokuza sanaa na utamaduni wa ndani nchini Tanzania. Kama sehemu ya mpango wetu kuinua utamaduni wa Kijapani nchini Tanzania tulishirikiana na Ubalizi wa Japan nchini Tanzania kukaribisha kikundi cha ngoma cha kipekee cha Chama cha mji wa Sagae Garyu cha nchini Japan.

Pia tulisaidia upataji wa elimu ya juu kwa masomo ya sayansi kwa wanafunzi wanawake watu wazima kwa kushirikiana na Mamlaka ya Elimu Tanzania (TEA). Jumla ya wanafunzi wanawake 235 wamenufaika na msaada huu mwaka 2013.

Tutaendelea kusaidia programu hizo mbili mwaka 2014 na kuanzisha programu ya tatu kwenye mhimili wa watu.

06. Financial Information

Corporate information

for the year ended 31 December 2013

Directors and advisers:

Directors

Mr. Majd Abdou (Chairman and CEO)
 Mr. Olivier Blanc*
 Mr. Hubertus Maria Antonius Ooms*
 Mr. Paul Makanza
 Mr. David Thorn
 Mr. Christo Kruger
 Mr. Ramadhani Khijja*
 (Resigned on 12 July 2013)
 Dr. Servacius Likwelile*
 (Appointed on 12 July 2013)

* Non-executive Directors

Principal bankers

Standard Chartered Bank Tanzania Ltd.
 CRDB Bank Plc.
 National Bank of Commerce Ltd.
 National Microfinance Bank Plc.
 Citibank Tanzania Ltd.
 Barclays Bank Tanzania Ltd.

Secretary, Registered Office and Principal place of business

Mr. Vintan Willgis Mbiro
 20 Nyerere Road
 P.O. Box 40114
 Dar es Salaam
 Tel: +255 22 216 6291

Shareholding structure:

Shareholder

JT International Holding B. V.	75.0%
General public	11.5%
Public Service Pension Fund	4.3%
Parastatal Pension Fund	3.0%
United Republic of Tanzania	2.5%
National Social Security Fund	2.2%
The Local Authorities Provident Fund	0.6%
Alliance Insurance Corporation Limited	0.4%
Trustees of the TCC Employees	
Share Option Scheme	0.3%
Government Employees Provident Fund	0.2%

Total **100%**

Shareholder classification

Local	25.00%
Foreign	75.00%

Total **100.00%**

**Based on share register as at 31 December 2013

Auditors

Deloitte & Touche
 Certified Public Accountants (Tanzania)
 10th Floor PPF Tower
 Corner of Ohio Street & Garden Avenue
 P.O. Box 1559
 Dar es Salaam

Report of the Directors

for the year ended 31 December 2013

The Directors present this report and the audited financial statements of Tanzania Cigarette Company Limited for the financial year ended 31 December 2013, which disclose the state of affairs of the Company.

Incorporation

The Company was incorporated in 1965 under the Companies Ordinance, Cap 212 which was repealed by the Companies Act, 2002; with registration number 3542 and is listed at the Dar es Salaam Stock Exchange (DSE). The Company is located at plot number 20 Nyerere Road, Dar es Salaam.

Vision and mission

The Company's vision is to be the best Company in East and Central Africa. We will grow volume while defending our share of market, deliver quality brands and; maximize consumers and customers satisfaction through innovation, engaged employees, integrity and excellence in execution.

Our values

Enterprising

We have the courage to do things differently. We work together to achieve our long-term goal. This leads to new ideas resulting in fresh perspectives and innovation. This is fuelled by our creative energy and agile minds.

Open

We believe in openness and transparency in everything we do. Diverse cultures inspire us, knowledge informs us and integrity guides us. This means making the right decisions, earning us the reputation as the trusted voice of authority within our industry.

Challenging

We strive for continuous improvement. This means embedding quality into everything we do and never accepting second best. We set the standards that become benchmarks for the entire industry. This enables us to challenge the status quo and be ahead of the market – a leader not a follower.

Principal activities

The Company's principal activities are the production and sale of cigarettes. The Company's brand portfolio includes Camel - the original American blend cigarette dating back to 1913; Embassy - the leading domestic premium brand; Iceberg; Portsman (formerly Sportsman) and Sweet Menthol - the two top selling domestic brands; Club and Safari; and Crescent & Star - a non-filter brand.

Report of the Directors

for the year ended 31 December 2013 (continued)

Composition of Board of Directors

The details of the Directors of the Company for the year under review and at the date of this report who, except as otherwise stated, served throughout the period are as disclosed on page 25.

Corporate governance

The Board of Directors of Tanzania Cigarette Company Limited consists of seven Directors, out of whom four Directors hold executive positions in the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles. The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer, who is assisted by the executive management team.

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability.

Tanzania Cigarette Company Limited (TCC) is a subsidiary of Japan Tobacco International (JTI). It is publicly listed on the Dar es Salaam Stock Exchange. TCC is committed to the principles and practices of good corporate governance and continuously seeks improvement. TCC strictly follows its parent Company's global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, being an equal opportunity employer, and an adherence to a strict code of conduct, environmental health and safety standards and corporate philanthropy.

Responsible Marketing

The Company adheres to the International Marketing Standards which set a baseline for acceptable tobacco marketing worldwide. TCC recognizes that it is right to restrict its marketing activities given the nature of its products. The unique nature of the product requires the Company to market products responsibly. The Company believes that smoking is an adult choice so it ensures that its brand marketing has no particular appeal to youth. TCC also ensures that adult smokers are appropriately informed about the health risks of smoking.

Know Your Customer (KYC)

The Know-Your-Customer policy is designed to ensure that TCC sells products to customers who have integrity, fully comply with all local laws as well as TCC's own stringent standards. A comprehensive verification exercise was completed in the period under review and found all surveyed customers to be compliant. The KYC program also helps the Company in the battle against the use of its products in illegal or unethical activities.

Equal Opportunity Employer

The Company is an equal opportunity employer and follows a standard recruitment procedure which ensures optimal selection and appropriate terms and conditions of employment. TCC maintains a work environment free from discrimination based on race, color, religion, nationality, gender, disability, marital status or any other status protected by law with regards to any term or condition of employment.

Report of the Directors

for the year ended 31 December 2013 (continued)

Code of Conduct

TCC adheres to the Code of Conduct of JTI, its parent Company. The Company is fully committed to achieving business results which are driven and supported by the highest level of integrity and are compliant with laws and regulations.

The Code of Conduct represents the values and responsibilities against which the Company is measured.

Reporting Concerns Mechanism

The Reporting Concerns Mechanism (RCM) is a confidential tool that is used for raising concerns or behavior that is inconsistent with the Code of Conduct, the Company policies and procedures, operating guidelines and all other applicable laws and regulations. Employees whose concerns have not been addressed through normal channels can use the tool to report on unethical business conduct or behavior.

Environment Health and Safety (EHS)

Environment, Health and Safety (EHS) is about protecting the health and safety of TCC employees, preventing accidents in the work place and minimizing the harm the Company activities can cause to the environment. Various external audits in 2013 re-confirmed the high quality of TCC's products. The Company's quality management system was ISO 9001-14001 re-certified in December, 2013. TCC's quality rating was also amongst the highest within the Japan Tobacco International Group of Companies. In addition, TCC's 5S3R program, an internationally recognized management tool for lean and clean manufacturing operations, was gold certified - the highest certification attainable.

Report of the Directors

for the year ended 31 December 2013 (continued)

Capital structure

The Company's shareholding structure as at 31 December 2013 is shown in page 25. The details of Company's share capital are shown below:

	2013 TZS M	2012 TZS M
Authorized:		
125,000,000 Ordinary shares of TZS 20 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
100,000,000 Ordinary shares	<u>2,000</u>	<u>2,000</u>

The Ordinary shares of the Company are held as follows:

Shareholder	2013 Number of Shares	2012 Number of Shares
JTIH B.V.	75,000,000	75,000,000
Minority shareholders	<u>25,000,000</u>	<u>25,000,000</u>
	<u>100,000,000</u>	<u>100,000,000</u>

Shareholders of the company

Japan Tobacco International (JTI) is the majority shareholder in TCC. It owns 75% of the issued and paid up ordinary shares of TCC. The Tanzania public owns the remaining 25%. The issued and paid up ordinary shares are listed and traded on the Dar Es Salaam Stock Exchange.

Directors' interest in issued and paid up share capital

Directors do not hold any material interest in the issued share capital of the Company (2012: None).

Report of the Directors

for the year ended 31 December 2013 (continued)

Management

The Company is organized into 8 departments, each headed by a director. These departments are:

- Consumer and Trade Marketing
- East and Central Africa Division
- Manufacturing
- Finance & IT
- Human Resources
- Company Services and Security
- Legal Affairs
- Corporate Affairs and Communications

Stock exchange information

In 2000, the Company was listed on the Dar es Salaam Stock Exchange at an initial public offering (IPO) price of TZS 410 per share. The performance of the Company's shares in the secondary market as measured by market capitalization as at 31 December 2013 was TZS 860 billion (2012: TZS 420 billion).

Results and dividend

During the year, the Directors declared an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2013 (2012: TZS 30 billion or TZS 300 per share). After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2012: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2012: TZS 25 billion or TZS 250 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal TZS 75 billion or TZS 750 per share (2012: TZS 75 billion or TZS 750 per share).

Performance for the year

Despite a tough domestic economic environment and highly competitive export markets, gross turnover increased from TZS 422.6 billion in 2012 to TZS 445.6 billion in 2013 or 5.5% up on prior year. The Company recorded a profit before tax of TZS 112.1 billion in 2013 compared to TZS 123.7 billion in 2012, equivalent to a 9.4% decrease over the prior year. Net profit decreased by 9.2% to TZS 78.1 billion in 2013 from TZS 85.9 billion in 2012.

The Company's business fundamentals remained sound in 2013 with strong liquidity evidenced by cash and cash equivalent of TZS 41.8 billion (2012: TZS 30.4 billion). During 2013 the Company invested an additional TZS 20.3 billion (2012: TZS 15.8 billion) in product quality, production capacity and sales distribution infrastructure.

Tax compliance and rewards

The Company was fully tax compliant in 2013, with no tax disputes with the Tanzania Revenue Authorities (TRA) and Municipal and District Councils where it operates. The Company was recognized and awarded several certificates of compliance by the TRA as 2nd overall winner of the most compliant corporate taxpayer at the national level at the 7th taxpayer's day held on 8th November 2013. The company was also recognized and awarded by Temeke Municipal Council as the best voluntary compliant trader in City Service Levy at the 2nd taxpayer's day held on 22nd November 2013.

Report of the Directors

for the year ended 31 December 2013 (continued)

Risk management and internal control

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is management's task to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observation of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2013 and is of the opinion that they met accepted criteria.

Risk management is carried out by the Finance and Internal Audit department under policies approved by the Board of Directors.

Solvency

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Employee's welfare

Management and employees' relationship

Relations between management and employees remained sound overall, with a few minor labor cases brought against the Company by some dismissed employees.

Report of the Directors

for the year ended 31 December 2013 (continued)

Training and development

For the year ended 31 December 2013, the Company invested over four hundred million shillings in staff training in order to improve employee's knowledge, skills and aptitude and hence organizational effectiveness. It should be noted that this amount covers only functional and soft skills development and excludes specific departmental skills training requirements such as manufacturing technical training. The company is committed to improve training and development programs to meet the demands of our dynamic growing business.

Medical assistance

The Company has a medical insurance scheme for all employees, including direct dependents (up to 5 members). In addition, there is an employee wellness program to raise awareness and educate employees of prevention on common ailments such as diabetes, hypertension, obesity, malaria and HIV/ AIDS.

Health and safety

The health and safety of employees and third parties on site is key and a part of the Company's culture. There are programs, policies and procedures in place to achieve this, including the provision of safety gear, training and safety awareness campaigns.

Financial assistance to staff

Management has encouraged staff to join Mkombozi Savings and Credit Co-operative Society (SACCOS) to assist in promoting the welfare of its employees. The Company also provides education assistance for its eligible employees.

Wills project

The Company, through external lawyers, assists employees in writing and revising their wills. All employees are encouraged to have a will to ensure their families or beneficiaries are compensated on their death.

Employees benefit plan

The Company pays contributions to publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan. In addition, the Company signed voluntary agreement with Trade Union for a defined benefit plan upon retirement. All permanent employees qualify for the mandatory pension plans and the defined benefit plan.

The average number of employees during the year was 582 (2012:669).

Gender parity

At 31 December 2013 the Company had 605 employees out of which 104 were female and 501 male (31 December 2012: 682 employees: Female 125, Male 557).

Related party transactions and balances

All related party transactions and balances are disclosed in note 21 to these financial statements.

Report of the Directors

for the year ended 31 December 2013 (continued)

Political and charitable donations

The Company did not make any political donations during the year. The Company's assistance to communities or Corporate Philanthropy (CP) programs focus on two broad pillars: People (poverty alleviation, older people, adult education and people with disabilities); and Arts (cultural heritage, contemporary art and Japanese culture). These areas reflect the United Nations Millennium Development Goals (MDGs) which represent a globally accepted agenda for societal needs. Donation made to charitable organizations and non-governmental organizations during the year amounted to TZS 374 million (2012: TZS 379 million).

Auditors

The auditors, Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 170(1) of the Tanzanian Companies Act, 2002.

Approved and authorized for issue by the Board of Directors on 13 March 2014 and signed on its behalf by:



Mr. Majd Abdou
Chairman

Statement of Director's responsibilities

The Tanzanian Companies Act 2002 (the "Act") requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs and operating result for that year. The Act also requires the Directors to ensure that, the Company keeps proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of their operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.



Mr. Majd Abdou
Chairman

13 March 2014



Mr. Paul Makanza
Director

Independent auditor's report

to the members of Tanzania Cigarette Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Tanzania Cigarette Company Limited, set out on pages 36 to 82 which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give true and fair view in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002.

Report on Other Legal Requirements

As required by the Tanzanian Companies Act 2002 we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii) the Company's statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (T)Dar es Salaam
Signed by: **David C. Nchimbi**

13 March 2014

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2013

	Notes	2013 TZS M	2012 TZS M
Gross turnover		445,633	422,594
- VAT		(60,450)	(58,805)
Revenue	5	385,183	363,789
- Excise duty		(94,582)	(82,370)
Net sales		290,601	281,419
Cost of sales	6	(103,991)	(93,705)
Gross profit	5	186,610	187,714
Marketing, selling and distribution expenses		(32,568)	(30,362)
Administration expenses		(43,440)	(35,143)
Other expenses		(1,173)	(1,142)
Other gains		283	438
Interest income		2,439	2,229
Interest expense		(14)	(6)
Profit before taxation	7	112,137	123,728
Income tax expense	8	(34,079)	(37,787)
Profit for the year		78,058	85,941
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
- Defined benefit actuarial gain/(loss)	25	6,849	(2,082)
- Tax relating to components of other comprehensive income	8	(2,055)	624
Total comprehensive income		82,852	84,483
Earnings per share			
Basic and diluted (TZS per share)	9	781	859

Statement of financial position

as at 31 December 2013

	Notes	2013 TZS M	2012 TZS M
Assets			
Non-current assets			
Property, plant and equipment	11	100,078	96,527
Intangible assets	12	528	793
Investment in subsidiary	13	-	-
Total non-current assets		100,606	97,320
Current assets			
Inventories	14	92,381	73,547
Trade and other receivables	15	13,922	21,711
Cash and bank balances	16	41,840	30,404
Total current assets		148,143	125,662
Total assets		248,749	222,982
Equity and liabilities			
Capital and reserves			
Share capital	17	2,000	2,000
Defined benefit reserves		2,021	(2,773)
Retained earnings		176,748	173,690
Shareholders' equity		180,769	172,917
Non-current liabilities			
Deferred tax liability	18	7,662	4,596
Defined benefit obligation	25	6,168	12,209
Total non-current liabilities		13,830	16,805
Current liabilities			
Trade and other payables	19	52,878	28,363
Income tax payable	8 (d)	1,272	4,897
Total current liabilities		54,150	33,260
Total liabilities		67,980	50,065
Total equity and liabilities		248,749	222,982

The financial statements on pages 36 to 82 were approved and authorized for issue by the Board of Directors on 13 March 2014 and were signed on its behalf by the following Directors:



Mr. Majd Abdou
Chairman



Mr. Paul Makanza
Director

Statement of changes in equity

for the year ended 31 December 2013

	Notes	Share capital TZS M	Defined benefit reserves TZS M	Retained earnings TZS M	Total TZS M
At 1 January 2012		2,000	(1,315)	147,749	148,434
Profit for the year		-	-	85,941	85,941
Other comprehensive income, net of income tax		-	(1,458)	-	(1,458)
Total		2,000	(2,773)	233,690	232,917
Dividend paid (2011 final and 2012 interim)	10	-	-	(60,000)	(60,000)
Balance at 31 December 2012		2,000	(2,773)	173,690	172,917
At 1 January 2013		2,000	(2,773)	173,690	172,917
Profit for the year		-	-	78,058	78,058
Other comprehensive income, net of income tax		-	4,794	-	4,794
Total		2,000	2,021	251,748	255,769
Dividend paid (2012 final and 2013 interim)	10	-	-	(75,000)	(75,000)
Balance at 31 December 2013		2,000	2,021	176,748	180,769

Statement of cash flows

for the year ended 31 December 2013

	Notes	2013 TZS M	2012 TZS M
Profit before taxation		112,137	123,728
<i>Adjustments for:</i>			
Depreciation and amortization		15,788	12,684
Defined benefit expense		1,072	1,698
Interest expense		14	6
Interest income		(2,439)	(2,229)
Loss on disposal of property, plant and equipment		357	367
		126,929	136,254
<i>Working capital changes:</i>			
Increase in inventories		(18,834)	(16,017)
Movement in related party balances		(509)	769
Decrease/(increase) in trade and other receivables		8,733	(2,566)
Increase/(decrease) in trade and other payables		24,080	(14,192)
Cash flows from operating activities		140,399	104,248
Defined benefit paid	25	(264)	(169)
Net interest received		2,425	2,223
Income tax paid	8 (d)	(36,693)	(34,177)
Net cash generated from operating activities		105,867	72,125
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(20,297)	(15,803)
Proceeds from disposal of property, plant and equipment		866	251
Net cash used in investing activities		(19,431)	(15,552)
Cash flows from financing activities:			
Dividends paid to owners of the company	10	(75,000)	(60,000)
Net cash used in financing activities		(75,000)	(60,000)
Net increase/(decrease) in cash and cash equivalents		11,436	(3,427)
Cash and cash equivalents at the beginning of the year		30,404	33,831
Cash and cash equivalents at the end of the year		41,840	30,404
Represented by:			
Cash and bank balances		41,840	30,404

Notes to the financial statements

for the year ended 31 December 2013

1. General information

Tanzania Cigarette Company Limited (The Company) is a limited liability Company incorporated in the United Republic of Tanzania. The addresses of its registered office and principal place of business are disclosed in the corporate information on page 1 of this report. The principal activities of the Company are described in the Directors' report.

2. Adoption of new and revised International Financial Reporting Standards

a) New standards and amendments to published standards effective for the year ended 31 December 2013

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

The application of the amendment had no effect on the Company's financial statements as the Company did not restate its financial statements

Amendments to IAS 16, Property, Plant and Equipment (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The application of amendments to IAS 16 has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company does not have spare parts, stand-by equipment and servicing equipment that should be classified as property, plant and equipment.

The application of the amendment had no effect on the Company's financial statements as the Company did not have stand-by and service equipment which qualify for reclassification as property, plant and equipment.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

a) New standards and amendments to published standards effective for the year ended 31 December 2013 (continued)

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the company's financial statements as the company did not use corridor approach and its defined obligations are unfunded.

IAS 27 Separate Financial Statements (2011)

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments / IAS 39 Financial Instruments: Recognition and Measurement.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The application of the amendment had no effect on the Company's financial statements as the Company does not have material subsidiary to consolidate.

IAS 28 Investments in Associates and Joint Ventures (2011)

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The application of standard had no effect on the Company's financial statements as the Company had no investments in associates and joint ventures.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

a) New standards and amendments to published standards effective for the year ended 31 December 2013 (continued)

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the Company's financial statements as the company did not have any offsetting arrangements in place.

IFRS 10 Consolidated Financial Statements

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control; irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'Special Purpose Entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

The application of the amendment had no effect on the Company's financial statements as the Company did not have a consolidating subsidiary.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in joint ventures. The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venture applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

The application of the amendment had no effect on the Company's financial statements as the company did not have any joint arrangement.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

a) New standards and amendments to published standards effective for the year ended 31 December 2013 (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions** - such as how control, joint control, significant influence has been determined
- **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

The adoption of this standard did not have any changes in the Company's financial statements disclosures because the company does not have material subsidiary to consolidate.

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

a) New standards and amendments to published standards effective for the year ended 31 December 2013 (continued)

New and revised standards on consolidation joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company uses exemptions available under IFRS 10 for not consolidating its subsidiary as indicated in Note 13.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognised as a non-current 'stripping activity asset' when certain criteria are met. The stripping activity asset is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

The application of the amendment had no effect on the Company's financial statements as the Company is not involved in surface mining activities.

b) New and amended standards in issue but not yet effective in the year ended 31 December 2013

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and Amendments to standards

Effective for annual periods beginning on or after

IFRS 9, Financial Instruments - Classification and Measurement (2010)	1 January 2015
IFRS 10, IFRS 12 and IAS 27, Investment Entities	1 January 2014
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IAS 32, Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36, Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39, Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Annual Improvements 2010-2012 Cycle	1 January 2014
Annual Improvements 2011-2013 Cycle	1 January 2014

New interpretations

IFRIC 21 Levies	1 January 2014
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Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.
- Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The Directors of the Company anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Directors of the Company do not anticipate that the amendments will have any effect on the Company's financial statements as the Company is not an investment entity.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The Directors of the Company do not anticipate that the amendments will have any effect on the Company's financial statements as the Company is not first time adopter of IFRS.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Directors do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The Directors of the Company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Company's financial statements as the Company does not have assets or cash generating unit where recoverable amount is determined using present value technique.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The Directors do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the Company's financial statements as the Company does not have any derivative.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (continued)

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 - Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition';
- IFRS 3 - Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date;
- IFRS 8 - Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 - Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);
- IAS 16 and IAS 38 - Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and
- IAS 24 - Clarify how payments to entities providing management services are to be disclosed

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The Directors do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Company's financial statements.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 3 - Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;
- IFRS 13 - Clarify the scope of the portfolio exception in paragraph 52; and
- IAS 40 - Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The Directors do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Company's financial statements.

IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The Directors do not anticipate that the application of this interpretation will have a significant impact on the Company's financial statements as the Company does not have any liability for a levy imposed by a government.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (continued)

d) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2013.

3. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

For the Tanzanian Companies Act 2002 reporting purposes, in these financial statements the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the financial statements as statement of profit or loss and other comprehensive income.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments that are measured at revalued amounts or fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are stated in TZS (Tanzanian Shillings).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Gross turnover, which comprises the invoiced value of sales, net of returns and discounts, is recognized when products are delivered and accepted by the customers and is stated inclusive of Excise Duty and Value Added Tax. Export sales are deemed to be accepted by customer upon dispatch of goods.

Net sales, which comprise the invoiced value of sales net of returns and discounts, are stated exclusive of Excise Duty and Value Added Tax.

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

Interest income is recognized when it accrues on a time proportion basis using effective interest rate method.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Foreign currency translation

These financial statements are presented in Tanzania shillings, which is also the functional currency of the Company. Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated using the closing rates. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowing.

Retirement benefits obligations

The voluntary agreement between management and Trade Union created defined benefit plan. The Company operates an unfunded and unvested defined benefit scheme for its employees. Provision is made in the financial statement for the estimated cost of the future benefits under the scheme. No employee contributions are made to the scheme. Provisions to scheme are recognized as an expense in profit or loss when employees have rendered service entitling them to the scheme with actuarial valuations being carried out at the end of each reporting period. Actuarial gains or losses are fully recognized in other comprehensive income. Past service cost are recognized immediately in profit or loss.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for actuarial gains and losses. The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using various factors as described in the note 25 of these financial statements.

The Company and its employees also make statutory contributions to the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). The Company's obligations with respect to contributions are 10% and 15% of the employees' gross emoluments for NSSF and PPF members respectively. The Company's contributions with respect to these retirement benefits obligations are charged to the profit or loss in the period to which they relate.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Corporate tax

The current corporate tax charge in profit or loss is based on statutory income tax rate of 30% applied on taxable profit for the year under review. The taxable profit arrived after taking into consideration relevant provisions of IAS 12 and the Income Tax Act, 2004 together with its subsequent amendments through the Finance Acts as enacted by the Parliament of United Republic of Tanzania (URT).

Taxable profit differs from account profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in different accounting periods (temporary differences) and items that are never taxable or deductible (permanent differences). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

Deferred taxation

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, the written down value. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available in future against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period under review

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Value Added Tax (VAT)

The revenues, expenses and assets are recognized at amounts net of VAT. However, where VAT incurred on a purchase of an assets or services is not claimable as input VAT as provided in the VAT Act, 1997 together with its subsequent amendments and regulations, the VAT is recognized as part of cost of acquisition of the assets or part of the expense item as it seems to be appropriate.

Any unpaid or uncollected amounts due to suppliers or due from customers are stated and reported as gross amount with VAT being included.

The net (Output VAT less Input VAT) amount of VAT payable to Tanzania Revenue Authority at the year-end is included as part of trade and other payables.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Taxation (continued)

Excise Tax

The excise tax paid/payable to Tanzania Revenue Authority is determined by applying specific rates as provided in the Excise (Management and Tariff) Act, Cap 147 together with its subsequent amendments. The current specific excise tax rates which are applicable at year end are as follows:

- Cigarettes without filter tip and containing domestic tobacco exceeding 75% is TZS 9,031 per 1,000 cigarettes.
- Cigarettes with filter tip and containing domestic tobacco exceeding 75% is TZS 21,351 per 1,000 cigarettes.
- Other cigarettes not mentioned in first and second bullet above is TZS 38,628 per 1,000 cigarettes.

The amount of excise tax payable to Tanzania Revenue Authority at the year-end is included as part of trade and other payables

Investment in Subsidiary Company

Investment in subsidiary is recognized at cost less any accumulated impairment losses.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of raw materials and consumable stores are determined by the weighted average cost method. Cost of finished goods and work in progress are valued at direct raw material cost and include a portion of manufacturing overhead expenses, determined on a weighted average basis. Net realizable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Leases

Leases of property and equipment, where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance charge is charged to profit or loss over the lease period. Property and equipment acquired under finance leasing contracts are depreciated over the term of the lease or useful life of the asset, whichever is shorter.

Rental income from operating leases is recognized on a straight line basis over the term of relevant lease. The total payments made under operating leases are charged to other operating expenses in profit or loss on a straight line basis over the period of lease. When operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value. Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis. Residual values are

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated. The estimated useful life of assets at time of acquisition is assumed as follows:

	Years
Permanent buildings	50
Temporary buildings	3
Plant and machinery	5 - 20
Other equipment	3 - 10
Motor vehicles	4
Advertising equipment	4

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense during the period incurred.

Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in profit or loss in the period in which they occur. The date of disposal is determined as the date on which the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the proceeds on the sale can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset, from the date that it is available for use.

Trademarks

Trademarks are initially measured at purchase cost and are amortized on a straight line basis over their estimated useful lives. The estimated useful life of the current trademarks is 10 years.

Impairment of tangible and intangible assets

Assets that have an indefinite useful life and intangible assets not available for use are tested annually for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognized as an expense in profit or loss immediately. The recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use of an asset represents the expected future cash flows, from continuing use and disposal that are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognized impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in prior periods. No goodwill impairment losses are reversed.

After the recognition of an impairment loss, any depreciation or amortization charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the end of reporting period, are not recognized as liabilities.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company's principal financial assets are trade and other receivables (excluding Value Added Tax, prepayments and operating lease receivables) and cash and cash equivalents.

Financial assets are recognised and derecognised on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

All financial assets are initially measured at fair value, including transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value, excluding transaction costs.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Trade and other receivables

Trade and other receivables are stated at invoice amounts less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect the amounts due according to the original terms of the original receivable. Provisions for impairment are recorded in the year in which they are identified.

The average credit period on sales of goods is 7 days for domestic customers and 60-90 days for export customers. No interest is charged on trade receivables. The Company has recognized an allowance for doubtful debts against all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are difficult to recover. Daily sales outstanding balance during 2013 was 6 days (2012: 7 days).

Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include cash on hand, in banks and investments in money market instruments, net of outstanding bank overdrafts and duly reconciled to the related items in the statement of financial position. Cash and cash equivalents in the statement of financial position include cash on hand and cash in banks.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

De-recognition of financial asset

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company's principal financial liabilities are trade and other payables (Value Added Taxation, revenue charged in advance and reduced subscriptions excluded).

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of profit or loss and other comprehensive income.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Trade and other payables are stated at their nominal value. Trade payables are non-interest bearing and are normally settled between 15 to 30 days for local suppliers and up to 60 days for foreign suppliers after date of invoice.

De-recognition of financial liabilities

The Company de-recognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable is recognised in profit or loss.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

4. Critical accounting judgements and key sources of estimation uncertainties

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. These estimates are based on management's best knowledge of current events and actions they may undertake in the future but the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are regularly reviewed and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of critical judgments and key sources of estimation uncertainty are as set out below.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment provision

Management carries out a regular review of the status of trade receivables, inventories and other financial assets to determine whether there is any indication that these assets have suffered any impairment loss. If any such indication exists,

Notes to the financial statements

for the year ended 31 December 2013 (continued)

4. Critical accounting judgements and key sources of estimation uncertainties (continued)

the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, which is then dealt with in the profit or loss. In determining whether an impairment loss should be recognized in the profit or loss, management checks whether there is objective evidence that the assets are impaired and that the fair values have declined.

Management estimates of the required provisions are based on critical evaluation of the economic circumstances involved, historical experience and other factors that are considered to be relevant.

Property, plant and equipment

Management reviews the useful lives and residual values of the items of property, plant, and equipment on a regular basis. During the financial year, the Directors determined no significant changes in the useful lives and residual values.

Provisions for pending litigations

The Company is currently involved in various legal cases. Management regularly reviews the status of these cases and, in consultation with legal counsel, estimates the probable liabilities that could be incurred in the event that the cases are lost. In determining whether to process the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

Defined benefit plan

The Company operates an unfunded defined benefit retirement plan for all employees. Employees do not contribute to the plan, the Company bears all cost. A provision is made in the financial statements for the estimated cost of the future benefits. The accuracy and completeness of such provisions is confirmed periodically by an independent actuarial valuation.

Taxation

The company is subjected to numerous taxes and levies by various government and quasi-government regulations bodies. As a rule of thumb, the company recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of managements in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

5. Operating segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Company has two operating segments namely domestic and export markets. Domestic market has reported revenue from both external customers and intersegment sales or transfers of 87 per cent of the combined revenue, internal and external, of all operating segments, thus qualifying as reportable segment. The absolute measure of its reported profit or loss is more than 94 per cent in absolute amount, of the combined reported profit or loss of all operating segments that report a profit or loss.

The domestic market is carrying on the business of manufacturing and selling of cigarette in Tanzania. The brands sold in domestic market are Camel, Club, Embassy, Portman, Sweet Menthol, Iceberg, Safari, Crescent & Star.

Export markets include Democratic Republic of Congo, Mozambique, Malawi, Zambia, Burundi and Comoros. Export markets reported revenue of 13 per cent of the combined revenue (2012: 10%).

Notes to the financial statements

for the year ended 31 December 2013 (continued)

5. Operating segments (continued)

Information about transactions with major customers

Below is the revenue from top ten domestic customers, the amounts are VAT inclusive.

	2013 TZS M	2012 TZS M
Revenue from top ten customers	<u>57,998</u>	<u>48,722</u>

The domestic market has more than 1000 active customers.

Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment gross profit	
	2013 TZS M	2012 TZS M	2013 TZS M	2012 TZS M
Domestic Market	335,822	326,702	175,621	181,099
Export Market	<u>49,361</u>	<u>37,087</u>	<u>10,989</u>	<u>6,615</u>
Total	<u>385,183</u>	<u>363,789</u>	<u>186,610</u>	<u>187,714</u>

	2013 TZS M	2012 TZS M
Marketing , Selling & Distribution expenses:		
- Export market	(6,714)	(5,300)
- Domestic market	(25,854)	(25,062)
General & Administration costs	(43,440)	(35,143)
Other expenses	(1,173)	(1,142)
Other gains	283	438
Interest income	2,439	2,229
Interest expense	<u>(14)</u>	<u>(6)</u>
Profit before tax	<u>112,137</u>	<u>123,728</u>

Notes to the financial statements

for the year ended 31 December 2013 (continued)

5. Operating segments (continued)

	2013 TZS M	2012 TZS M
Segment assets		
Property, plant and equipment	100,078	96,527
Intangible assets	528	793
Total segment non-current assets	100,606	97,320
Inventories	92,381	73,547
Trade and other receivables	13,922	21,711
Cash and cash equivalents	41,840	30,404
Total segment current assets	148,143	125,662
Consolidated assets	<u>248,749</u>	<u>222,982</u>
Segment liabilities		
Deferred tax liability	7,662	4,596
Defined benefit obligation	6,168	12,209
Total segment non-current liabilities	13,830	16,805
Trade and other payables	52,878	28,363
Taxation Payable	1,272	4,897
Total segment current liabilities	54,150	33,260
Consolidated liabilities	<u>67,980</u>	<u>50,065</u>

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to domestic market.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

5. Operating segments (continued)

Other segment information

	Depreciation and amortization		Additions to non-current assets	
	2013 TZS M	2012 TZS M	2013 TZS M	2012 TZS M
Leasehold	909	817	541	1,231
Plant and machinery	10,875	8,465	2,379	1,888
Other equipment	1,041	637	784	2,363
Motor vehicles	2,698	2,500	1,116	2,397
Capital work in progress	-	-	15,477	7,924
Intangible assets	265	265	-	-
Total	15,788	12,684	20,297	15,803

The following is an analysis of the operating segment revenue from its major products in domestic market.

	2013 TZS M	2012 TZS M
Embassy	33,536	26,802
Portman	122,069	141,039
Sweet Menthol	95,043	118,911
Safari	35,044	19,482
Club	37,670	8,178
Other	12,460	12,290
	335,822	326,702

6. Cost of sales

	2013 TZS M	2012 TZS M
Direct costs	69,477	60,237
Indirect costs	34,514	33,468
	103,991	93,705

Notes to the financial statements

for the year ended 31 December 2013 (continued)

7. Profit before taxation

Profit before taxation has been arrived at after charging/(crediting):

	2013 TZS M	2012 TZS M
Directors' emoluments	4,806	3,646
Depreciation and amortization	15,788	12,684
Technical and management service fees	13,157	10,994
Auditor's remuneration:		
- Audit fees	178	165
Loss on disposal of property, plant and equipment	357	367
Foreign exchange loss/(gain)	296	(161)
Employee benefits:		
<i>Short term benefits:</i>		
- Salaries	20,018	18,227
- Bonus	3,510	2,991
- Fringe	4,507	2,408
- Vacation	1,532	1,273
- Other	445	528
<i>Long term benefits:</i>		
Defined benefit obligation	1,072	1,698
NSSF and PPF contributions	1,822	1,581
Total employee benefits	32,906	28,706

Notes to the financial statements

for the year ended 31 December 2013 (continued)

8. Taxation

(a) Income tax recognized in profit or loss

	2013 TZS M	2012 TZS M
Current taxation - current year at 30%	33,012	37,711
- Prior year under provision	56	779
	33,068	38,490
Deferred taxation - current year	949	(283)
- Prior year under provision	62	(420)
	1,011	(703)
Total income tax charge to profit and loss	34,079	37,787

Income tax expense represents the sum of the tax currently payable and deferred tax.

(b) Reconciliation of accounting profit to tax charge

Accounting profit before taxation	112,137	123,728
Tax charge at 30%	33,641	37,118
Income subject to lower rate of tax or not subject to tax	(28)	(31)
Disallowable expenditure	348	341
Current tax of prior years	56	779
Deferred tax adjustment - prior years	62	(420)
Taxation charge	34,079	37,787

(c) Income Tax in other comprehensive income

Deferred tax debit/(credit) - Defined benefit plan actuarial gain/(loss)	2,055	(624)
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(d) Taxation payable

At beginning of the year	(4,897)	(584)
Charge for the year (Note 8(a))	(33,068)	(38,490)
Corporation tax paid	36,693	34,177
Balance at end of year	(1,272)	(4,897)

Notes to the financial statements

for the year ended 31 December 2013 (continued)

9. Earnings per share

The earnings per share is calculated by dividing the net profit attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year.

	2013 TZS M	2012 TZS M
Profit attributable to ordinary shareholders (TZS M)	78,058	85,941
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (TZS)	781	859

There were no potential dilutive shares outstanding at 31 December 2013 and at 31 December 2012.

10. Dividends

	2013 TZS M	2012 TZS M
Interim dividend for the year	30,000	30,000
Final dividend for the year	45,000	45,000
Total	75,000	75,000
Number of ordinary shares in issue (million)	100	100
Dividend per share (TZS)	750	750

During the year, the Directors declared an interim ordinary gross dividend of TZS 30 billion or TZS 300 per share, which was paid in October 2013 (2012: TZS 30 billion or TZS 300 per share). After the year-end, the Directors have proposed the declaration of a final ordinary gross dividend of TZS 20 billion or TZS 200 per share (2012: TZS 20 billion or TZS 200 per share) and a special gross dividend of TZS 25 billion or TZS 250 per share (2012: TZS 25 billion or TZS 250 per share). The final ordinary and special dividends are subject to adoption by shareholders at the Annual General Meeting and, once approved, the total gross dividend relating to current year will equal TZS 75 billion or TZS 750 per share (2012: TZS 75 billion or TZS 750 per share).

Notes to the financial statements

for the year ended 31 December 2013 (continued)

11. Property, plant and equipment

	2013 TZS M	2012 TZS M
Cost	165,920	153,915
Accumulated depreciation	(65,842)	(57,388)
	100,078	96,527
Leasehold property	25,727	24,943
Plant and machinery	64,586	57,826
Other equipment	4,157	4,191
Motor vehicles	4,751	6,313
Capital work in progress	857	3,254
	100,078	96,527

Notes to the financial statements

for the year ended 31 December 2013 (continued)

No assets were pledged as security at year end or during the year under review (2012: None).

11. Property, plant and equipment (continued)

	Leasehold property TZS M	Plant and machinery TZS M	Other equipment TZS M	Motor vehicles TZS M	Capital work in progress TZS M	Total TZS M
Cost						
At 1 January 2012	28,438	100,485	3,719	12,929	1,205	146,776
Additions	1,231	1,888	2,363	2,397	7,924	15,803
Transfers	1,621	2,980	1,062	212	(5,875)	-
Disposals	(370)	(6,905)	(125)	(1,264)	-	(8,664)
At 31 December 2012	30,920	98,448	7,019	14,274	3,254	153,915
Additions	541	2,379	784	1,116	15,477	20,297
Transfers	1,152	16,468	234	20	(17,874)	-
Disposals	-	(6,886)	(134)	(1,272)	-	(8,292)
At 31 December 2013	32,613	110,409	7,903	14,138	857	165,920
Accumulated depreciation						
At 1 January 2012	5,305	38,669	2,316	6,725	-	53,015
Charge for the year	817	8,465	637	2,500	-	12,419
Disposals/transfers	(145)	(6,512)	(125)	(1,264)	-	(8,046)
At 31 December 2012	5,977	40,622	2,828	7,961	-	57,388
Charge for the year	909	10,875	1,041	2,698	-	15,523
Disposals/transfers	-	(5,674)	(123)	(1,272)	-	(7,069)
At 31 December 2013	6,886	45,823	3,746	9,387	-	65,842
Net book value:						
At 31 December 2013	25,727	64,586	4,157	4,751	857	100,078
At 31 December 2012	24,943	57,826	4,191	6,313	3,254	96,527

Capital work in progress relates to the cost of various capital expenditure items which were under construction or were not received at year end.

Included in property, plant and equipment are assets with an original cost of TZS 2,344 million (2012: TZS 13,480 million) which are fully depreciated and whose normal depreciation charge for the year would have been TZS 447 million (2012: TZS 3,591 million).

Notes to the financial statements

for the year ended 31 December 2013 (continued)

12. Intangible assets

	2013 TZS M	2012 TZS M
Cost	2,646	2,646
Amortization		
At beginning of year	1,853	1,588
Charge for the year	265	265
At end of year	2,118	1,853
Net book value	528	793

Intangible assets acquired separately are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over its estimated useful life. The estimated useful life and amortization method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets relate to acquired cigarette trademarks. The estimated useful life from year of acquisition is 10 (ten) years. There are no intangible assets resulting from internal developments or business combinations.

13. Investment in subsidiary

	2013 TZS M	2012 TZS M
TCC (Kenya) Limited	534	534
Allowance for impairment	(534)	(534)
	-	-

Investment in subsidiary represents the shares held in TCC (Kenya) Limited, a wholly-owned subsidiary, which is incorporated in Kenya under the Kenyan Companies Act. The principal activities of the subsidiary are the importation, distribution and wholesaling of tobacco products. However, the Company has not been trading since 31 December 2002 and full impairment provision of the investment has been made in the financial statements.

The subsidiary has not been consolidated because the parent Company has determined that the investment is not material and has no impact to the reported profit or loss and its statement of financial position. The Company also took advantage of exemptions available under paragraph 4 of the IFRS 10, Consolidated and separate financial statements.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

14. Inventories

	2013 TZS M	2012 TZS M
Raw materials	66,114	52,892
Work in progress	190	220
Consumable stores	4,393	5,109
Goods in transit	8,881	2,028
Finished goods	13,520	13,839
	93,098	74,088
Allowance for obsolete materials	(717)	(541)
	92,381	73,547
Inventories carried at net realizable value below cost:	-	-
	-	-

15. Trade and other receivables

	2013 TZS M	2012 TZS M
Trade receivables	6,242	6,355
Amounts due from related companies (Note 21)	1,698	753
Prepayments and other receivables	6,960	15,169
	14,900	22,277
Allowance for doubtful receivables	(978)	(566)
	13,922	21,711
Movement in the allowance for doubtful debts:-		
At the beginning of the year	566	528
Amounts recovered during the year	(449)	(66)
Increase in allowance during the year	861	104
At the end of the year	978	566

Notes to the financial statements

for the year ended 31 December 2013 (continued)

16. Cash and bank balances

	2013 TZS M	2012 TZS M
Cash in hand	9	11
Bank balances	41,831	30,393
	<u>41,840</u>	<u>30,404</u>

17. Share capital

Authorized:

125,000,000 Ordinary shares of TZS 20 each

2,500 2,500

Issued and fully paid:

100,000,000 Ordinary shares of TZS 20 each

2,000 2,000

There were no movements in the share capital of the Company during the year. The Company has one class of ordinary shares, which carries no fixed right to income. The ownership structure of the Company is as set out below:

	2013 Ordinary Shares Million	2012 Ordinary Shares Million
Resident shareholders:		
General public	11.5	11.5
Public Service Pension Fund	4.3	4.3
Parastatal Pension Fund	3.0	3.0
United Republic of Tanzania	2.5	2.5
National Social Security Fund	2.2	2.2
The Local Authorities Provident Fund	0.6	0.6
Alliance Insurance Corporation Limited	0.4	0.4
Trustees of the TCC Employees Share Option Scheme	0.3	0.3
Government Employees Provident Fund	0.2	0.2
	25.0	25.0
Non-resident shareholder:		
JT International Holding B.V.	<u>75.0</u>	<u>75.0</u>
Total ordinary shares in issue	<u>100.0</u>	<u>100.0</u>

Notes to the financial statements

for the year ended 31 December 2013 (continued)

18. Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method, using the enacted tax rate of 30%.

	2013 TZS M	2012 TZS M
The net deferred tax liability is attributable to the following:		
Accelerated capital allowances	11,189	9,814
Provisions	(1,677)	(1,556)
Defined benefit obligation provision	<u>(1,850)</u>	<u>(3,662)</u>
	<u>7,662</u>	<u>4,596</u>

The movement on the deferred tax account for the year 2013 is as follows:

	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities (assets) in relation to:				
- Property, plant and equipment	9,814	1,375	-	11,189
- Provisions	(1,556)	(121)	-	(1,677)
- Defined benefit obligation	<u>(3,662)</u>	<u>(243)</u>	<u>2,055</u>	<u>(1,850)</u>
	<u>4,596</u>	<u>1,011</u>	<u>2,055</u>	<u>7,662</u>

The movement on the deferred tax account for the year 2012 is as follows:

	Opening balance TZS M	Recognized in P&L TZS M	Recognized in OCI TZS M	Closing balance TZS M
Deferred tax liabilities (assets) in relation to:				
- Property, plant and equipment	9,159	655	-	9,814
- Provisions	(657)	(899)	-	(1,556)
- Defined benefit obligation	<u>(2,579)</u>	<u>(459)</u>	<u>(624)</u>	<u>(3,662)</u>
	<u>5,923</u>	<u>(703)</u>	<u>(624)</u>	<u>4,596</u>

Notes to the financial statements

for the year ended 31 December 2013 (continued)

19. Trade and other payables

	2013 TZS M	2012 TZS M
Trade payables	20,343	5,069
Amounts due to related companies (Note 21)	4,004	3,569
Excise tax and VAT payable	9,870	7,034
Other liabilities and accruals	13,807	8,481
Provisions (Note 20)	4,854	4,210
	<u>52,878</u>	<u>28,363</u>

20. Provisions

Bonus provision	3,779	3,286
Provision for leave pay	1,075	924
	<u>4,854</u>	<u>4,210</u>

The movement on the provision accounts for the year 2013 is as follows:

	Opening balance TZS M	Utilized/ reversed TZS M	Raised TZS M	Closing balance TZS M
Bonus provision	3,286	(3,256)	3,749	3,779
Provision for leave pay	924	(924)	1,075	1,075
	<u>4,210</u>	<u>(4,180)</u>	<u>4,824</u>	<u>4,854</u>

The movement on the provision accounts for the year 2012 is as follows:

Bonus provision	2,789	(2,493)	2,990	3,286
Provision for leave pay	816	(1,165)	1,273	924
	<u>3,605</u>	<u>(3,658)</u>	<u>4,263</u>	<u>4,210</u>

Notes to the financial statements

for the year ended 31 December 2013 (continued)

21. Related party transactions and balances

Related companies

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Company transacts with the ultimate holding Company and other companies related to it by virtue of common shareholding. All transactions with related parties are made at an arm's length in the normal course of business and on normal commercial terms and conditions.

During the year, the following transactions were entered into with related parties:

Contracts with related parties

The Company has agreements with JT International SA and JT International Holding B.V for provisional of managerial, technical and administrative services since 1 January 2008. Amounts payable under these agreements are included under purchase of goods and services below. The charge for the year is TZS 10,151 million (2012: TZS 10,994 million).

Other transactions with related parties

i. Purchase of goods and services

	2013 TZS M	2012 TZS M
Payable to JT International Companies	(4,004)	(3,569)
Receivable from JT International Companies	1,494	390
JTI Leaf Services Limited	<u>204</u>	<u>363</u>

ii. Related party balances

Outstanding balances with related companies as at the year-end are shown on the statement of financial position and are shown in notes 15 and 19 of these financial statements.

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the year for bad and doubtful debts in respect of the amounts owed by related parties.

iii. Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including all Directors.

The Company does not have the following schemes for its key personnel management.

- Post-employment benefits
- Other longer-term benefits
- Termination benefits

Notes to the financial statements

for the year ended 31 December 2013 (continued)

21. Related party transactions and balances (continued)

The remuneration of Directors and other key members of management during the year were as follows:

	2013 TZS M	2012 TZS M
Key management remuneration	4,806	3,646
Non-executive Directors emoluments	32	30

22. Commitments

i. Capital commitments

	2013 TZS M	2012 TZS M
Authorized but not contracted for	8,441	6,664
Authorized and contracted for	4,742	6,978
	13,183	13,642

The capital commitments relate to purchase of properties, machinery and equipment to enhance production capacity, operational efficiency and product quality.

ii. Other commitments

As at 31 December 2013 the company had a commitment for purchase of leaf totaling TZS 17,069 million (2012: TZS 7,314 million).

23. Contingent liabilities

As at the end of reporting period, there was a pending and unresolved petition by Fair Competition Commission (FCC) against the Company. FCC alleges various charges against the Company with regard to breach of Sections 10 & 11 of the Fair Competition Act No. 8 of 2003.

In September 2012, the High Court of Tanzania dismissed the Company's petition against the FCC on the ground that the Company did not exhaust all available remedies at the FCC and at the Fair Competition Tribunal level. The Company has appealed to the Court of Appeal of Tanzania. The Directors, in consultation with the Company lawyers, are of the view that its position is strong, and it is not possible to estimate any potential liability, if any, at this stage.

The Company also is currently involved in a number of commercial and labour cases. However, no provision has been made in these financial statements because in the opinion of the Directors, the amounts, which are probable to be incurred by the Company in the event that it loses the related cases, are not likely to be material.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

24. Bank overdraft

The company had an overdraft facility with Standard Chartered Bank (Tanzania) Limited up to a limit of TZS 3 billion in order to meet its working capital requirements. The facility is secured by a guarantee from the ultimate parent company Japan Tobacco Inc. The effective interest rate for the facility is a 91 Days Treasury Bills plus 2.7% p.a. and is charged on daily overdrawn amount and repayable monthly (minimum price floor of 6%). The facility expires on 27 August 2014. As at 31 December 2013, there were no drawdowns made by the company (2012: NIL).

25. Retirement benefits

Statutory retirement benefits

The Company has an obligation to make statutory contributions for retirement benefits of its employees. All eligible employees of the Company are members of the National Social Security Fund of Tanzania (NSSF) or Parastatal Pension Funds (PPF), to which the Company contributes 10% and 15% and the employee contributes 10% and 5% of the gross salaries respectively every month. During the year ended 31 December 2013, the Company's contributions to the funds amounted to TZS 1,822 million (2012: TZS 1,581 million).

Defined benefit obligation

The company operates an unfunded defined benefit plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits of one month salary for every year of continuous service for 1 to 9 years and an additional 10% for every additional year of continuous service beyond 10 years.

The Company provides for retirement benefit cost based on assessments made by independent actuaries. The most recent actuarial valuation was carried out at 31 December 2013 by Towers Watson, fellow of the Institute of Actuaries of the United Kingdom. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2013 Percentage	2012 Percentage
Discount rate	16.00	11.50
Salary inflation	8.75	11.75
Cost of living increase	5.75	8.75

	2013 TZS M	2012 TZS M
Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit obligation:		
- Current service cost	475	516
- Past service cost	(700)	-
- Interest cost	1,297	1,182
- Actuarial (gain)/loss recognized in Other comprehensive income	(6,849)	2,082
Net (gain)/cost for the year	(5,777)	3,780

Notes to the financial statements

for the year ended 31 December 2013 (continued)

25. Retirement benefits (continued)

The movement in the Company retirement benefit obligation was as follows:-

	2013 TZS M	2012 TZS M
Opening defined benefit obligation	12,209	8,598
Current service cost	475	516
Past service cost	(700)	-
Interest cost	1,297	1,182
Actuarial (gain)/losses recognized	(6,849)	2,082
Benefits paid	(264)	(169)
Closing defined benefit obligation	6,168	12,209

26. Operating lease arrangements

Operating leases relate to leases for motor vehicles and buildings with lease term of maximum one year. The Company does not have an option to purchase the leased motor vehicles and buildings at the expiry of the leased periods.

Payments recognized as an expense are:-

	2013 TZS M	2012 TZS M
Buildings	1,188	1,054
Motor vehicles	160	214
	<u>1,348</u>	<u>1,268</u>

27. Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and services offered. The Company, through its training, standards and procedures management, aims to maintain a disciplined and constructive control environment, in which all employees and stakeholders understand their roles and obligations.

The most important types of risks are credit risk, liquidity risk and market risk which is mainly due to foreign exchange risk and interest rate risk. A description of the significant risk factors is given below together with the risk management policies applicable.

Notes to the financial statements

for the year ended 31 December 2013 (continued)

27. Financial risk management objectives and policies (continued)

Credit risk management

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, and trade and other receivables. Trade receivables comprise a large and widespread customer base and the Company performs ongoing credit evaluations on the financial condition of its customers. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the companies' management based on prior experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.

The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2013 without taking account of the value of any collateral obtained was:

	Fully performing TZS M	Past due TZS M	Impaired TZS M
Trade and other receivables	7,940	-	978
Cash and bank balances	41,840	-	-
Total credit exposure	49,780	-	978
The amount that best represents the Company's maximum exposure to credit risk as at 31 December 2012 without taking account of the value of any collateral obtained was:			
Trade and other receivables	7,108	-	566
Cash and bank balances	30,404	-	-
Total credit exposure	37,512	-	566

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is impaired has been fully provided for. Management is actively following up recovery of the impaired debt. The movement in the provision for bad and doubtful debts is as set out below:

Notes to the financial statements

for the year ended 31 December 2013 (continued)

27. Financial risk management objectives and policies (continued)

	2013 TZS M	2012 TZS M
At the beginning of the year	(566)	(528)
Amounts recovered during the year	449	66
Increase in allowance during the year	(861)	(104)
At the end of the year	(978)	(566)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already recognized.

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. The Directors may from time to time at their discretion raise or borrow monies for the Company as they deem fit. There are no borrowing limits in the articles of association of the Company.

Maturity analysis for financial liabilities as at 31st December 2013 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade payables	(1,126)	(23,221)	-	-	(24,347)

Maturity analysis for financial liabilities as at 31 December 2012 showing the remaining contractual maturities:

Trade payables	(1,694)	(6,944)	-	-	(8,638)
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Notes to the financial statements

for the year ended 31 December 2013 (continued)

27. Financial risk management objectives and policies (continued)

Maturity analysis for financial assets as at 31 December 2013 showing the remaining contractual maturities:

	<1 month TZS M	1 - 5 months TZS M	5 -12 months TZS M	> 1 year TZS M	Total TZS M
Trade receivables	6,059	903	-	-	6,962
Cash and bank balances	41,840	-	-	-	41,840
	47,899	903	-	-	48,802

Maturity analysis for financial assets as at 31 December 2012 showing the remaining contractual maturities:

Trade receivables	6,376	165	-	-	6,541
Cash and bank balances	30,404	-	-	-	30,404
	36,780	165	-	-	36,945

Market risk management

(i) Interest rate risk

The company is not exposed to interest rate risk because it does not have interest earning liabilities. The company has received interest income amounting to TZS 2,439 million (2012: TZS 2,229 million) from its short-term bank deposits.

(ii) Foreign exchange risk

does not enter into formal hedging transactions in respect of these transactions. Volatility in the exchange rate of US \$ against TZS would make the Company's costs and results less predictable than when exchange rates are stable.

At 31 December 2013, if the TZS had strengthened by 5% against the USD with all the other variables held constant, the impact on the pre-tax profit for the year would have been lower or higher by TZS 699 million (2012: TZS 474 million).

The carrying amounts of the Company's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, as at 31 December are as follows:

	2013 TZS M	2012 TZS M
Trade and other receivables	2,628	1,530
Trade and other payables	(16,612)	(11,378)
Open position	(13,984)	(9,848)

Notes to the financial statements

for the year ended 31 December 2013 (continued)

27. Financial risk management objectives and policies (continued)

Financial instruments categorization

	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
As at 31 December 2013					
Assets					
Non-current assets					
Property, plant and equipment	-	-	100,078	-	100,078
Intangible assets	-	-	528	-	528
Current assets					
Inventories	-	-	92,381	-	92,381
Trade and other receivables	6,962	-	6,960	-	13,922
Cash and bank balances	41,840	-	-	-	41,840
Total assets	48,802	-	199,947	-	248,749
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	176,748	176,748
Defined benefit actuarial losses	-	-	-	2,021	2,021
Non-current liabilities					
Deferred tax liability	-	-	7,662	-	7,662
Defined benefit plan	-	-	6,168	-	6,168
Current liabilities					
Trade and other payables	-	24,347	28,531	-	52,878
Taxation Payable	-	-	1,272	-	1,272
	-	24,347	43,633	180,769	248,749

Notes to the financial statements

for the year ended 31 December 2013 (continued)

27. Financial risk management objectives and policies (continued)

	Loans and receivables TZS M	Financial Liabilities carried at amortized Costs TZS M	Non financial liabilities or assets TZS M	Equity TZS M	Total TZS M
As at 31 December 2012					
Assets					
Non-current assets					
Property, plant and equipment	-	-	96,527	-	96,527
Intangible assets	-	-	793	-	793
Current assets					
Inventories	-	-	73,547	-	73,547
Trade and other receivables	6,541	-	15,170	-	21,711
Cash and bank balances	30,404	-	-	-	30,404
Total assets	36,945	-	186,037	-	222,982
Equity and liabilities					
Capital and reserves					
Share capital	-	-	-	2,000	2,000
Retained earnings	-	-	-	173,690	173,690
Defined benefit actuarial losses	-	-	-	(2,773)	(2,773)
Non-current liabilities					
Deferred tax liability	-	-	4,596	-	4,596
Defined benefit plan	-	-	12,209	-	12,209
Current liabilities					
Trade and other payables	-	8,638	19,725	-	28,363
Taxation Payable	-	-	4,897	-	4,897
	-	8,638	41,427	172,917	222,982

Notes to the financial statements

for the year ended 31 December 2013 (continued)

28. Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Company analyses and assesses the gearing ratio to determine the level and its optimality, through balancing its overall capital structure in payment of dividends and issue of new debt or the redemption of existing debt.

The Company's overall strategy remains unchanged from 2010.

The constitution of capital managed by the Company is as shown below:

	2013	2012
	TZS M	TZS M
Share capital	2,000	2,000
Defined benefit actuarial gains/ (losses)	2,021	(2,773)
Retained earnings	176,748	173,690
Equity	180,769	172,917

As at 31 December 2013 the Company was not financed by any debt (2012: NIL).

29. Fair value measurement

IFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements

for the year ended 31 December 2013 (continued)

29. Fair value measurement (continued)

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

(a) Fair value of the Company financial assets and financial liabilities that are measured at fair on recurring basis.

The company had no financial assets or financial liabilities that are measured at fair value on recurring basis at 31 December 2013 (2012: none)

(b) Fair value of the Company financial assets and financial liabilities that are not measured at fair on recurring basis.

The following table analyses within the fair value hierarchy the Company's financial assets and financial liabilities (by class) not measured at fair value at 31 December 2013 but for which fair value is disclosed:

	Fair value hierarchy at 31 December 2013			Total
	Level 1	Level 2	Level 3	
	TZS M	TZS M	TZS M	TZS M
Financial assets:				
Trade and other receivables	-	7,940	-	7,940
Cash and bank balances	41,840	-	-	41,840
Total	41,840	7,940	-	49,780
Financial liabilities:				
Trade and other payables	-	24,347	-	24,347
Total	-	24,347	-	24,347

The assets and liabilities included in the above table are carried at amortised cost. The Directors consider that there is no material difference between the fair value and carrying value of the Company's financial assets and liabilities where fair value details have not been presented.

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term investments in an active market.

Trade and other receivables include the contractual amounts for settlement of trades and other obligations due to the Company. Trade and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses. The following table analyses within the fair value hierarchy the Company's financial assets and financial liabilities (by class) not measured at fair value at 31 December 2012 but for which fair value is disclosed:

Notes to the financial statements

for the year ended 31 December 2013 (continued)

29. Fair value measurement (continued)

	Fair value hierarchy at 31 December 2012			
	Level 1	Level 2	Level 3	Total
	TZS M	TZS M	TZS M	TZS M
Financial assets:				
Trade and other receivables	-	7,108	-	7,108
Cash and bank balances	34,404	-	-	34,404
Total	<u>34,404</u>	<u>7,108</u>	<u>-</u>	<u>37,512</u>
Financial liabilities:				
Trade and other payables	-	8,638	-	8,638
Total	<u>-</u>	<u>8,638</u>	<u>-</u>	<u>8,638</u>

There were no transfers between levels for the year ended 31 December 2013 (2012: none)

30. Events subsequent to the year end

A material event subsequent to year end was the retrenchment of 71 employees from various departments in January, 2014. The excise was part of a Company-wide restructuring initiative to increase our effectiveness by outsourcing none core functions and putting in place a more efficient organizational structure. The retrenchment was conducted in line with the Voluntary Agreement of December 20, 2012 and the Employment and Labor Relations Act 2004.

31. Incorporation

The Company is incorporated in Tanzania under the Companies Act 2002 and domiciled in Tanzania.

32. Ultimate parent company

The holding Company is JT International Holding B.V, a Company domiciled in the Netherlands. The ultimate parent Company is Japan Tobacco Inc., a Company incorporated under the Commercial Code of Japan pursuant to the Japan Tobacco Inc. Law.

33. Functional and presentation currency

The Company's functional and presentation currency is Tanzanian Shillings (TZS).

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